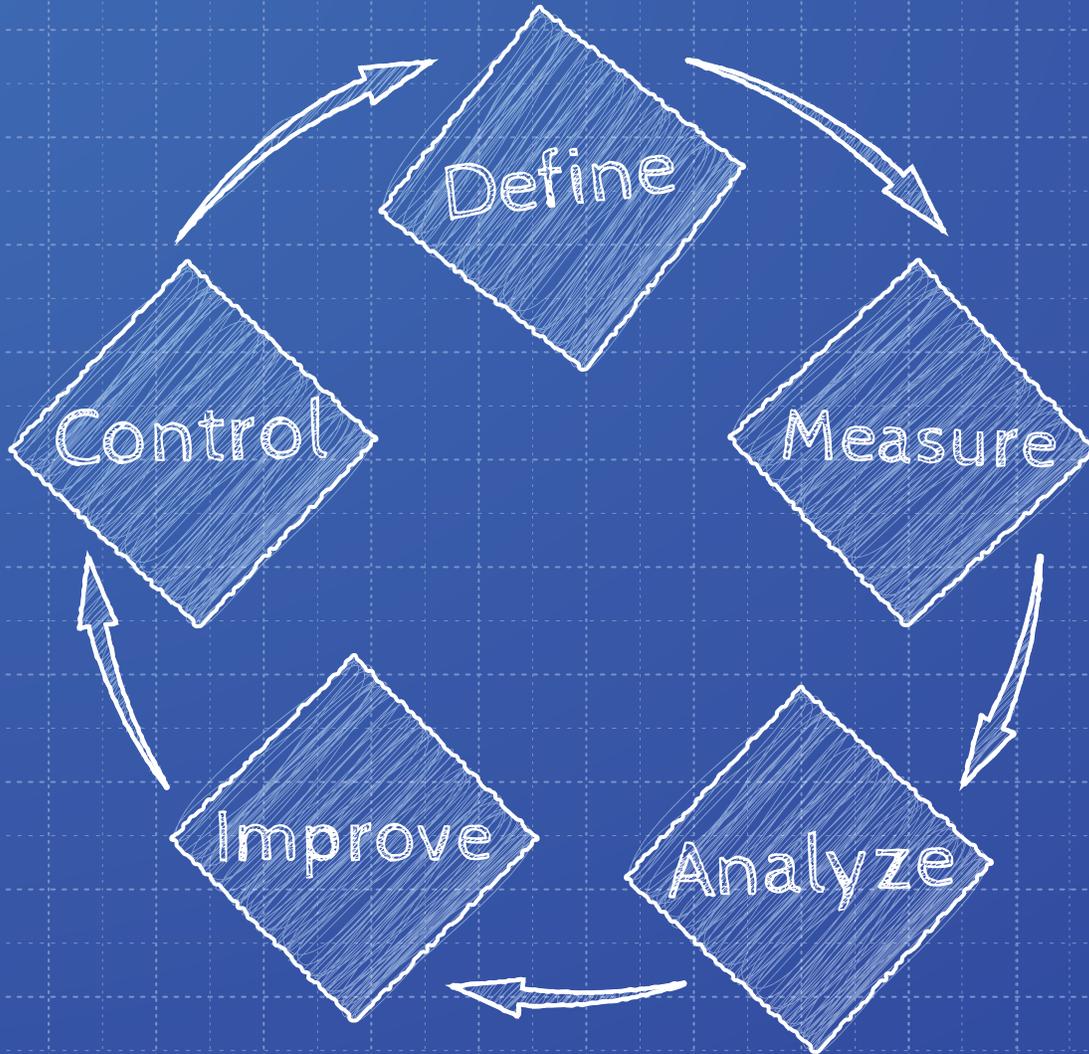


COLLEGE & UNIVERSITY

AUDITOR



INSIDE:

Project Management – Crucial Skills for Internal Auditors

Why Construction Audits are Important to Internal Auditors

Structuring the Interview

The Committee of Sponsoring Organizations (COSO) Update the Internal Control Integrated Framework (ICIF)

Customized Verification – Navigating Change

Who Shot the Auditors? The Inside Story



IDEA
Data Analysis Software

Isn't It About Time.

Time. We need more of it.

Technology should help not hinder the quest for time, but it must be both easy to use and yield high-quality results.

CaseWare IDEA® empowers you to achieve more in less time.

- Reduce audit time by 20-50%
- Increase efficiency with unlimited support and free resources
- Conduct more thorough audits by analyzing 100% of data
- Automate repeatable tasks without programming

It's About Time to Use IDEA



ACUA Strategic Partner

Exclusive Discounts & Benefits

- Preferred pricing on IDEA and license renewals
- Training discounts
- Special hands-on session at the Mid-Year Conference

Contact us to see IDEA in action.

888.641.2800 • sales@audimation.com • audimation.com

CONTENTS

FEATURES

AUDIT TOOLS

- 4 Project Management – Crucial Skills for Internal Auditors
By Danny Goldberg, CPA, CIA, CISA, CGEIT, CRISC, CRMA, CCSA, CGMA
- 6 Why Construction Audits are Important to Internal Auditors
By Matt Gardner, CCA, CICA

FRAUD

- 8 Structuring the Interview
By Tom Golden, CFE, CPA

GOVERNANCE

- 12 The Committee of Sponsoring Organizations (COSO)
Update the Internal Control Integrated Framework (ICIF)
By Randy Pearman, CPA, CIA

MEMBERS

- 16 • ACUA New Members
• In Memoriam
• Save the Date – 2014 ACUA Annual Meeting
- 17 • Volunteer Opportunity! Here's How You can be a Risk Owner
• NEW ACUA Resource Library Additions

COMPLIANCE

- 18 Customized Verification – Navigating Change
By Margaret Murphy

LEADERSHIP

- 20 Who Shot the Auditors? The Inside Story
By Charlie Chaffin, CIA, CPA



DEPARTMENTS

- 2** From the Editor
- 3** From the President

ACUA members are invited to submit letters and original articles to the editor. Go to www.acua.org and click on the Resources – *College & University Auditor Journal* for further guidelines. Please send your copy electronically to the editor or ACUA in Word 95 (or higher) or text file format. The editor reserves the right to reject, abridge or modify any advertising, editorial or other material.

Editor

Clarice Maseberg, Wichita State University
clarice.maseberg@wichita.edu
316-978-5824

Deputy Editor

Sam Khan, Oregon University System

Editing Staff

Amy Hughes, Michigan Tech
David Dixon, Governors State University
Mary Ann Mackenzie, Auburn University
Sterling Roth, Georgia State University

ACUA Management

Stephanie Newman, Executive Director

College & University Auditor is the official publication of the Association of College & University Auditors. It is published three times a year as a benefit of membership. Articles in *College & University Auditor* represent the opinions of the authors and do not necessarily represent the opinions of governance, members or the staff of the Association of College & University Auditors. Acceptance of advertising does not imply endorsement by ACUA. ©2014 Association of College & University Auditors.

Send address changes to:

ACUA
PO Box 14306
Lenexa, KS 66285-4306
ACUA-info@goAMP.com

LETTER FROM

THE EDITOR

By Clarice Maseberg, CPA, CIA
Editor



In the fall issue of *College & University Auditor*, we began publishing articles by 2013 Annual Conference presenters, so even if you weren't able to travel to Norfolk, you can still benefit from the presenters' knowledge and experience. This current issue contains several more excellent articles by conference presenters.

In my opinion, one of the best things about ACUA is the many members willing to volunteer their time and expertise.

In "Structuring the Interview," keynote speaker Tom Golden details techniques for admission seeking interviews. Danny Goldberg describes practices internal auditors can adopt for better audit management in "Project Management: Crucial Skills for Internal Auditors." Matt Gardner explains "Why Construction Audits are Important to Internal Auditors." In "The Committee of Sponsoring Organizations Update the Internal Control Integrated Framework," Randy Pearman discusses reasons for the update, what changed, and resources for further information.

From a financial aid administration perspective, Margaret Murphy provides information on "Customized Verification – Navigating Change." Charlie Chaffin, a two-time recipient of ACUA's Outstanding Professional Contributions Award, shares lessons learned during his 40-year career in auditing in "Who Shot the Auditors? The Inside Story."

In ACUA-specific news, this issue contains a list of new ACUA members, from around the United States to as far away as Doha, Qatar. Welcome! On a somber note, Willis Nordhem, one of the founding members of ACUA and the organization's third president, passed away recently. See the "Members" section for his obituary.

In my opinion, one of the best things about ACUA is the many members willing to volunteer their time and expertise. I was overwhelmed by the response I've received to my request on ACUA-L for volunteers to write a column dedicated specifically to small audit shops. I'm excited to announce that column will begin appearing in the next issue of the journal, along with several other new features.

Longtime readers of the journal may remember that past issues included various sections. We are returning to that format in this issue, and are looking for volunteers to serve as section editors in the future. Each section editor will be responsible for curating specific content, working closely with authors to help develop ideas and fine-tune articles. Please consider this opportunity, and look for more information coming soon on ACUA-L.

In addition, there are many volunteer opportunities available for authors. As we plan for upcoming issues of the journal, we are continuously looking for content. I encourage you to consider sharing your expertise with your fellow ACUA members. Please contact me for more information, or to submit article ideas.

Finally, some readers have asked about how to comment on articles published in the journal. At this time, it is not possible to leave comments electronically on articles in the journal, but letters to the editor are always welcome. I appreciate your feedback. ■

LETTER FROM

THE PRESIDENT



By Doug Horr
President

Dear Colleagues,

It's hard to believe that the Midyear Conference is nearly upon us. Where does the time go? If you are in the Northeast or northern Midwest, spring probably can't come quickly enough for you, as numerous states are setting records for cold temperatures and snowfall. In Miami, where I have not had to pick up a shovel for the first time in my adult life, it simply marks the halfway point of our business year and I thought I'd provide you an update on what your professional organization is doing.

The Membership Committee has been actively working on identifying new members and implementing methods to ensure the retention of our current ones.

ACUA committees have been extremely busy. The Membership Committee has been actively working on identifying new members and implementing methods to ensure the retention of our current ones. They are also performing analyses of our current fees structure to evaluate options to maintain our organizational fiscal viability while minimizing the financial stress on our members.

The Risk Dictionary Committee recently called for volunteers to help update one of ACUA's most valuable resources. If you have expertise in a particular area, and a spare hour or two, I encourage you to offer your time to help update a section of the Risk Dictionary. It's the easiest way I can think of to be engaged and help your fellow higher education auditors.

Our Website and Communications Committees are working closely to bring you the latest happenings in our profession. In addition to the timely articles you'll find in this edition of the journal, and the rolling hot-topics on the website, one of the key projects for this group is the transition of our ACUA-L listserv. This work is ongoing and you will very shortly see requests for volunteers to help test the new system. Please get involved and help with this very important process.

The Professional Education Committee has done another outstanding job organizing our Midyear Conference in Kansas City and is now fully engulfed in preparing for our Annual Conference in Los Angeles. This is ACUA's first trip to the Golden State in many, many years and maybe the first ever to LA (where is my ACUA historian?) so plan early as it will be sure to be standing room only. The committee has also been working hard on choosing future conference sites.

The Best Practices Committee recently put up the new Quality Assurance Review (QAR) Directory on the Member Resources page of the website. This database allows you to search for QAR volunteers on a variety of criteria, including, name, state, type of institution, etc. If you wish to be added to the directory, just fill out the form posted on the QAR page and return it to ACUA headquarters at acua-info@goAMP.com.

One of our organizational goals this year was to extend our reach and strengthen relationships with other higher education organizations. We have done this successfully with the University Risk Management and Insurance Association (URMIA), Society of Corporate Compliance and Ethics (SCCE), and Higher Education Compliance Alliance (HECA), and are looking to forge stronger bonds with the National Association of College and University Business Officers (NACUBO) and Institute of Internal Auditors (IIA). If you have ideas on how to strengthen these bonds or other organizations you feel we should be working with, please let a board member or ACUA headquarters know.

These are just a few of the things that your organization and its tireless volunteers are working on. There are so many more. The boundaries of our success are limited only by the ideas and resources we put forth. Please join-in in whatever capacity you feel appropriate.

I hope to see you all at the Midyear Conference.

Warm regards. ■

Project Management – Crucial Skills for Internal Auditors

By Danny Goldberg, CPA, CIA, CISA, CGEIT, CRISC, CRMA, CCSA, CGMA

Project management skills are integral for any major undertaking, even for internal auditors. Many auditors do not apply the basic foundation of project management, believing they are not necessary – “We know how to audit so do we really need to have all of this ‘red tape?’” I do believe this is a prevailing attitude in our industry. However, over the past few years, I have seen significant movement in the profession to practically apply these project management basics in internal audit. Below is a short list of “If we were to apply the bare minimum project management standards in our audit shop, this is what we should do:”

- Budgeted hours tracked throughout the audit
- Brainstorming: “You can budget for the unknown if you think through everything that could happen”
- Building “SMART” project and audit objectives
- Project status updates via a standardized template
- Audit post-mortem

BUDGETING

In many cases, budgets are created through the audit risk assessment at a very high and hypothesized level. Once audit planning and the preliminary risk assessment have been completed, the budget should be “trued up” to represent reality. This budget should be tracked throughout the audit (build time estimations into the audit work program) and reviewed at the end of the audit. Regardless of whether the team is measured based on this, tracking is necessary to build good estimates in forthcoming years.

BRAINSTORMING

Brainstorming is an integral but not highly regarded piece of project management and audit planning. People often take for granted the importance of the brainstorming process not only in planning but throughout the audit process. Brainstorming should begin in planning, then continue in fieldwork and into the audit post-mortem review, as described below:

- Planning – when identifying risks and objectives and criteria for an audit, the audit team would benefit greatly from an open-ended discussion on these topics, with a minimum of preconceived notions on the subjects. This would stimulate new ideas and new perspectives. The audit team should utilize prior year results and work papers and other resources but this would be after the brainstorming session.
- Fieldwork – whenever any issues arise, the team should discuss and share. In order to avoid “scope creep,” issues should be discussed as a team and a plan of action should be formulated.
- Audit Post-Mortem – every project plan should be revisited after completion to see what worked, what did not, what was learned and what can be carried forward to next year. Brainstorming what happened is a very useful technique.



ABOUT THE AUTHOR

Danny M. Goldberg is the founder of GOLDSRD (www.GOLDSRD.com), a provider of Staff Augmentation, Executive Recruiting and Professional Development services. Previously, Danny led the Professional Development and Executive Recruiting Practices at Sunera. Danny has over 16 years of audit experience, including five as a CAE/ Audit Director at two diverse companies.

BE SMART!

Project and audit objectives should be:

- Specific
- Measurable
- Achievable
- Results-Based
- Timely

As auditors, this has been drilled into our DNA for years, but most auditors still utilize very general, non-measurable audit terms such as reasonable, efficiency, sufficient, etc. Make sure the project and audit objectives follow the SMART acronym and define these terms either in the actual objective or by identifying criteria for each term.

STATUS UPDATES

Without appropriate updates, transparency is never achieved.

Status updates are crucial to any successful project plan. Without appropriate updates, transparency is never achieved. Communication breakdowns, whether a lack of or none at all, are the greatest factor in project failure. Additionally, the more standardized these communications are from one group, the more the organization has an understanding of the role they play and their expectations. Have frequent status updates and plan to meet face-to-face if possible; this will alleviate many concerns moving forward.

Project management is crucial to the success of any project but it is not easy. A great example of failed project management is the rollout of the new healthcare exchanges. The systems were not tested appropriately, do not work effectively and have soured much of the general public on the entire process. Simple steps could have alleviated or stopped this rollout until it was ready. Denying knowledge of the issues is not an excuse; any well-trained project manager can attest to that! ■

Why Construction Audits are Important to Internal Auditors

By Matt Gardner, CCA, CICA

Regardless of whether an organization is a frequent or one-time builder, investing in capital projects makes them vulnerable to construction fraud and unnecessary costs.

CONSTRUCTION PROJECTS INCUR RISK

Billions of dollars are spent each year by organizations on capital expenditures. Construction projects are often a business's greatest single expense, so they naturally incur a great deal of risk. Regardless of whether an organization is a frequent or one-time builder, investing in capital projects makes them vulnerable to construction fraud and unnecessary costs. Lack of resources, sound processes and oversight by the project management teams assigned to the project can hinder the organization's ability to properly manage time, cost, quality, safety and environmental sustainability. The consequences of such unmanaged risk can be loss of capital funds, loss of management or committee trust for future expenditures, and litigation.

An auditor's role within an organization is to improve internal controls around key and high-risk processes, and the project management function is no exception. The job of a construction auditor is to mitigate the risk associated with construction projects and provide assurance that an organization's money is handled appropriately. Auditors can even help negotiate a favorable contract, which means a sound budget figure and increased efficiency with fewer disputes as the project develops. An auditor's involvement throughout the course of a project sets a tone of governing oversight, resulting in fewer cost overruns, overcharges and billing errors.

ROI OF CONSTRUCTION AUDITS

Just how much money is at stake? Typical recoveries are one to three percent of the total project cost. In some organizations, cost recoveries exceed the entire annual budget for the internal audit department¹. Construction audits are typically an effective cost management tool that reduces total project costs.

FIRM REPUTATION MAY BE DECEIVING

Perhaps your organization hires a well known firm as both the construction management and general contractor. Unfortunately, this does not eliminate your risk. Even contractors with a good reputation should be held accountable through a construction audit. The infamous 2012 Lend Lease (Bovis) case is a caveat about the dangers of relying on a construction management firm. The construction giant admitted to fraudulent charges and evasion of government standards spanning at least a decade, paying \$56 million in fines and restitution.

Even contractors with a good reputation should be held accountable through a construction audit.

THREE'S A CROWD

The relationship between a construction management firm and the general contractor can be damaging to project value. Collusion between the general contractor and the owner's representative firm is more common than we'd like to think. When this relationship is too cozy, the representative your company paid hard earned dollars to monitor the project may not be looking out for your best interest in regard to cost and oversight of project quality and schedule.



ABOUT THE AUTHOR

Matt Gardner is the Practice Leader of Construction Audit Services for Honkamp Krueger & Co., P.C., and is responsible for managing and executing construction audits for clients across the nation among several industries. Matt currently resides in St. Louis, Mo., and enjoys spending his free time fishing, hunting, boating and working on construction projects.

On the other hand, priority differences and a strained relationship between the general contractor and owner's representative could yield the same negative impact. Miscommunications or disagreements over details such as scheduling may take precedence over cost, which could lead to overruns without the owner's consent. The owner and auditor must stay involved throughout the entire process to ensure only appropriate costs are charged.

FRAUD IS NOT THE ONLY RISK

Generally, overcharges or unallowable costs are not due to fraudulent activity. Some mistakes, such as mathematical errors, may be innocent but costly nonetheless. Projects involve a tremendous amount of paperwork, which is often handled outside the organization by project management systems or other forms of project cost tracking software.

Oftentimes contractors bill in accordance with their standard billing practices, which do not take into consideration your specific contract or the cost containment language built into it.

Unexpected issues arise with any project and must be handled accordingly. A construction auditor helps recognize whether a change order is legitimate or just a hidden profit center for the contractor. The auditor not only helps create a contract that anticipates and dissolves potential disputes, but is also there when issues arise to provide sound financial analysis of proposed changes.

Just because auditors may not have all the knowledge to construct a building themselves, it doesn't mean they won't be effective at construction auditing.

UNDER BUDGET, OVERCHARGED

Many projects may be under budget while still including erroneous or inappropriate charges. You must first be sure the original budget is a sound figure, which requires sound bidding and budget policies and procedures. It's easy for a general contractor to meet a budget if the original figure is higher than the actual project cost. Contractors may neglect details outlined in the scope of work or use materials of lower quality without issuing the proper credit for reduction in cost. Additionally, establishing aggressive general contractor savings goals within a contract provides an incentive to come in under budget and share in cost savings with an owner, especially if the savings is not capped by a maximum amount.

VALUE IN VIGILANCE

Just because auditors may not have all the knowledge to construct a building themselves, it doesn't mean they won't be effective at construction auditing. Construction auditors prevent contractors from cutting corners and sweeping details under the rug by staying involved in every phase of the project lifecycle. A jobsite inspection may identify altered or eliminated materials or scope of work even to the untrained eye.

Expensive pitfalls and hidden costs are rampant in capital expenditures. Construction audits are essential to maximizing the value of your organization's project. Fortunately, you don't have to be a carpenter or project manager to perform a construction audit. While industry experience helps, it's certainly not a requirement. Attention to detail, ability to dissect contracts and willingness to ask questions are some of the most important qualities an internal auditor should possess to effectively manage their organization's risk when undertaking a capital expenditure. ■

¹ Cashell, James and Eichmann, Rick "Construction Contract Auditing" *Internal Auditor*, February, 1999

Structuring the Interview

By Tom Golden, CFE, CPA

If you heard me speak at the 2013 annual ACUA conference in a session called, “Trust but Verify...to escape becoming a fraudster’s next victim,” then you know how important it is to follow this principle. In this article, I will provide additional information that I did not cover in my talk, and will focus on how to structure an admission seeking interview.

The lawyer’s job is to protect the organization and you would be wise to always seek their counsel.

While many may not feel comfortable engaging in admission-seeking interviews, for those of you who wish to take on such investigative activities, the following is how I would recommend you proceed to conduct an interview where you know the subject either has committed a terminable (or criminal) offense, or has knowledge of such. But before proceeding, know that I am not a lawyer and accordingly, while I am not offering legal advice, you should never conduct any investigation into possible criminal activity without advice of competent counsel. The lawyer’s job is to protect the organization and you would be wise to always seek their counsel. If you work for a publicly funded institution, your lawyer may instruct you on Garrity Rights.¹ Garrity Rights essentially protect public employees from being compelled to incriminate themselves during investigations being conducted by, or on behalf of, their employers. In other words, Garrity Rights protect wrongdoers and criminals (not innocents) and are an obstacle in the investigator’s path to discovering all relevant facts. If your investigation is perceived to have violated someone’s Garrity Rights, their statement(s) cannot be used in any future prosecution for the offense.² However, if what they have done is a terminable offense according to the guidelines of your institution, then you can still use such information to lawfully terminate them.

Having said that, any competent investigator knows that when conducting investigations in the U.S., you may not use tactics that use coercion or place the subject under duress (coerced by wrongful conduct or threat of harm). For example, you cannot compel a subject to voluntarily participate in an interview under threat of losing their job. Some public institutions may have specific requirements of investigators before they can interview someone for a possible crime. You may be required to advise a subject of their rights not to participate in such an interview (in accordance with Garrity Rights), before you conduct such interviews, essentially “Mirandizing” them: “You have the right to remain silent. Anything you say may be used against you ...” Any interview you may conduct that begins with a statement like this would be a complete waste of your time. This is why law enforcement agencies like the FBI do not Mirandize anyone *until* they are taken into custody. This law does not require an investigator to Mirandize someone who is being questioned in connection with a possible criminal act. As such, in conducting my own investigations, I have never advised someone of their “... right to remain silent,” and my advice to you is to decline to conduct any interview requiring you to do so. So, enough of the legal mumbo jumbo. Before proceeding with your investigation, seek the advice of competent legal counsel.

Some public institutions may have specific requirements of investigators before they can interview someone for a possible crime.

Now, to the matter at hand, here is how I suggest you structure your admission-seeking interview. First, recognize that all investigations are subject to individual facts and circumstances. The following is for situations where you know your subject has either committed a crime (or terminable offense), or has knowledge of such. Your job is to craft a persuasive argument which convinces the subject that you know they are guilty and that they will be better off admitting to the offense. You are not delivering a speech or an argument although you may, at times, become argumentative and intimidating. Again, depending on the policies of your institution, you may lie,³ ingratiate yourself to the subject and use other deceptive practices, but you may never use coercion or duress. OK, let’s proceed.



ABOUT THE AUTHOR

Tom Golden delivered a General Session program entitled Trust but Verify...to escape becoming a fraudster's next victim at the 2013 ACUA Annual Conference on Sept. 22-26, 2013, in Norfolk, Va. For more information you can visit his website at www.tomgoldenspeaks.com.

PREPARATION AND YOUR STATE OF MIND

The investigator must thoughtfully prepare for these interviews considering all possible scenarios to her theory of the case. Remember that your job is not to find the facts that prove your theory. Your job is to find all the relevant facts that either prove or disprove your theory of the case. Plan to spend some multiple of the time you expect to spend in the interview, maybe as much as three to five times. It is extremely difficult to get someone to admit to a wrongdoing, which is why your argument to them needs

Your job is to find all the relevant facts that either prove or disprove your theory of the case.

to be persuasive, understanding that you are likely dealing with a typical white collar criminal. These individuals are not hardened criminals, but otherwise good people who, by a set of adverse circumstances, have done something wrong and likely carry an extreme sense of guilt. You are offering them an opportunity to confess to a sympathetic and compassionate “friend” who understands that they meant no harm and are truly sorry for what they have done.

ARRANGING FOR THE INTERVIEW

Imagine that you are winding down your investigation. The subject (now a target)⁴ has become the focus of your investigation. You are convinced of their guilt, but you do not want them anxious at this time. Such a call or conversation to set up the exit interview may go something like this:

Interviewer: *Hey John, I just want to let you know that we will be wrapping up our audit⁵ procedures and getting out of your hair this coming Friday. I'd like to arrange for our required exit interview with you.*

John: *So, everything went according to plan? Did you find anything that I should be aware of?*

[The truth is that you have documentary and testamentary evidence that proves John was running a payments fraud and has bilked the university out of a million dollars over the past three years. However, you want to allay his fears of discovery, as you have been doing all along, so you use deception to continue keeping his defences low.]

Interviewer: *Actually John, everything is fine. We just have a few minor control suggestions for your consideration. I don't expect the exit interview to take more than 30 minutes.*

[In actuality, you expect the admission-seeking interview to take about two hours and you expect him to confess to crimes and to be escorted out by security at the conclusion of the interview ... but you want him to feel relaxed so you do not disclose any of this at this time.]

ROOM PREPARATION

You want to conduct the interview under circumstances you control. A key component of extracting the confession is to convince the target that you are in control. To the extent possible, setting up a conference room as follows will communicate this important condition.

Conduct the interview in a plain and small conference room. Place the tables and chairs such that any windows would be to the target's back. You don't want him getting distracted.

Situate yourself between the target and the exit door. He is free to leave at anytime. You are not holding him against his will. You just want to make him feel very uncomfortable if he should choose to leave the interview. Having to walk past and around you to exit the room should convey to your target that you are in control. In all my years of doing this, I have had only one target walk around me and leave the room. To his surprise, he was then greeted by a process server presenting him with notice of a civil court subpoena. He later saw it our way.

QUESTIONING

Hopefully during the course of your investigation you have established and maintained a friendly rapport with your target. You want him to see you as a “friend” and not an adversary. This is to ensure his cooperation up until the moment that is fast approaching when you will let him know that you know he has been lying. More on that later. Right now it is important to begin your questioning with relaxed and non-confrontative questions. It is important to get him to confirm his knowledge about critical components of your proof of his complicity and knowledge. This is when you get him to admit to such with your “prover”⁶ sitting next to you and taking copious notes.

CONFRONTATION

This is where the interview begins to take on an adversarial flavor. At a point, make the target aware that you know he is lying, being somewhat subtle and not too direct, but leading the target to believe that you are “disappointed” with him. His reaction will be crucial in determining the level of intimidation you will need to extract the confession. Many targets fold at this point. If they do, you are ready for the next step. If they don’t, you may need to get more accusatory and intimidating, possibly even laying out some of your evidence and convincing (persuading) them that you have all the facts and continued lying on their part is fruitless.

RATIONALIZATION

Remember that you are not dealing with a hardened criminal, rather someone who did something really stupid and, under stressful circumstances, could not turn away from his criminal ways. If you have been successful in managing his attitude along the path, he is ripe for the confession. You now just need to make that landing as palatable as possible. Once they know that you know they have been lying, they typically stop lying, but you are not done with them yet. You now need to convince them it is in their best interest to begin telling the truth. This is where helping them rationalize what they have done can get that ultimate confession.

Interviewer: John, look, I know that you are a good person. Everyone that we have encountered tells us you are a good person and a good friend to all. Most would do what you have done, being faced with the pressures you have been under. I know that you are the good person that others see you as. I am certain that you simply saw an opportunity to “borrow” some funds from the university fully intending to pay it back some day, but things just got out of hand, didn’t they?

[This is a crucial point in the interview. You have just given them an opportunity to fess up without extreme embarrassment and guilt. It is absolutely critical that you do not say another word because the first person to speak at this point loses. Seriously ... shut up! If the target fails to answer, simply repeat what you have just said, continuing to console and empathize, but let silence⁷ do its magic.]

As soon as the target confirms the crime, which could be with a simple “yes,” you launch into the compassionate role, remembering to keep him talking to get all the pertinent facts.

You will not be successful in all your admission-seeking interviews, but with practice, you will convert the majority of them to confessions.

CONFIRMATION AND WRAP-UP

Once he has confessed in general terms, now is the time to roll out specific transactions to get him to confirm these in as much specificity as possible. Make him comfortable. Ask if he’d like some water. Revert back to your “friend” mode, continuing to console and empathize all the time having your prover feed you with specific transactions and facts you wish to confirm.

So that’s all there is to it. You will not be successful in all your admission-seeking interviews, but with practice, you will convert the majority of them to confessions. ■

¹ For a brief summary of such rights, here is a website you may find helpful: <http://www.garrityrights.org/basics.html>.

² The subject may still be prosecuted for a criminal act using other lawfully obtained evidence, just not their statement admitting to the crime.

³ Consult with university counsel. Some organizations may have a “no lie” policy. See *Brady v. Maryland*-373 US 83 and <http://bit.ly/1aaiVJS>.

⁴ A “subject” encompasses anyone you encounter during the course of your investigation who is a participant in your investigation. Targets are those subjects who, due to the evidence you have gathered, have advanced themselves in your theory of the case (what occurred and who participated) to a level where all facts lead you to believe they are guilty of the crime.

⁵ In most investigatory procedures, you use the cover of performing routine audit procedures rather than entering as “investigators” thereby keeping defenses low.

⁶ The “prover” is someone on your team tasked with taking notes. Only one person takes notes. At the end of the interview you and your prover will review the notes, making sure that all is correct and being sure to use quotation marks in the appropriate places, then both sign and date them. Accurate and contemporaneous notes taken by the investigative team have compelling probative value at trial.

⁷ Silence makes most people feel uncomfortable and they have a tendency to want to fill the void created by silence. In admission-seeking interview situations you are better off remaining silent for however long it takes for the target to remain uncomfortable and want to fill the void with their words, oftentimes admitting to the crime.



Candor. Insight. Results.

We speak your language.

“Candor. Insight. Results.” is more than a tagline; it is how we conduct ourselves every day in support of our clients, which include many premier institutions of higher education.

Baker Tilly is a full service accounting and advisory firm. We collaborate with internal audit departments to provide surge capacity and address areas of strategic importance, including:

- > Risk management
- > Research compliance
- > Construction management
- > Fraud and forensics
- > Sustainable energy
- > Cost reduction
- > Information technology

Our experienced professionals provide practical, proactive, and customized services, and are adept at navigating the complex culture found in universities, research institutions, and teaching hospitals.

Connect with us: bakertilly.com/higher-education

Baker Tilly refers to Baker Tilly Virchow Krause, LLP, an independently owned and managed member of Baker Tilly International.

© 2011 Baker Tilly Virchow Krause, LLP

The Committee of Sponsoring Organizations (COSO) Update the Internal Control Integrated Framework (ICIF)

By Randy Pearman, CPA, CIA

A solid framework on which to base our internal control systems is essential to our success as responsible business professionals. Since 1992 many of us have relied on the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control Integrated Framework (ICIF) as a guide in constructing our systems of internal control. After more than two decades as the gold standard in internal control, COSO has updated the ICIF.

The updates were implemented for a number of reasons. First, there have been changes in the legal environment. Over the past two decades, numerous financial frauds have impacted the way people view financial reporting, financial accountability, and auditing. Many of us remember debacles such as Enron, Global Crossing, WorldCom, Tyco and others. In response we now have Sarbanes Oxley and equivalent state legislation to contend with in our operations. Second, technology changes have impacted every aspect of the way we conduct business. In 1992, the Internet was not the critical tool for daily business activity that it is now. Computers are smaller, faster and more powerful than anything we had available 20 years ago. Cell phones are now prolific and social technology is changing the way we approach business. The changes in laws and technology have greatly contributed to changes in the business environment. Technology has made communication and information transfer virtually instantaneous and available every moment of every day. Information that was once available only with travel or laborious mail exchanges is now instantly available on desktops around the world. These changes prompted COSO to reexamine the ICIF to ensure its relevance and usefulness. After more than two and a half years of research, debate, rewrites and drafts, COSO released the updated ICIF on May 14, 2013.

The updates have improved a number of areas in the ICIF. In order to address significant changes, the updated ICIF contains more detailed language regarding technology and its role in internal control. More treatment is given to working with third parties; i.e. consultants, processors, etc. Interestingly, the updated ICIF expands the topic of reporting. It formerly focused only on external financial reporting. Now the framework deals with both financial and non-financial reporting, and external and internal reporting. This provides a more useful approach to all reporting. Perhaps most significantly, COSO has expanded on the original five components of internal control to include 17 principles. These principles are divided among the relevant components and provide more detailed insight into how to address each component. In addition, the principles are now supported with "points of focus." The points of focus are divided among the principles and provide more specific opportunities for an institution to test for compliance with the component. The components of internal control, along with their associated principles, are listed below.

Over the past two decades, numerous financial frauds have impacted the way people view financial reporting, financial accountability, and auditing.



ABOUT THE AUTHOR

Randy Pearman joined the Georgia Tech Department of Internal Auditing in August of 1999. Currently, he is serving at the University System of Georgia as Interim Executive Director of Internal Auditing. He holds an undergraduate degree in accounting from the University of South Alabama in Mobile and a Master's degree in accountancy from Georgia State University. In addition, he is a Certified Public Accountant and a Certified Internal Auditor.

CONTROL ENVIRONMENT

Principle #1: Demonstrates commitment to integrity and ethical values.

Principle #2: Board of directors exercises oversight responsibility.

Principle #3: Management and board of directors establish structure, authority and responsibility.

Principle #4: Organization demonstrates commitment to competence.

Principle #5: Organization holds individuals accountable for their internal control responsibilities.

RISK ASSESSMENT

Principle #6: Organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

Principle #7: Organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.

Principle #8: Organization considers the potential for fraud in assessing risks to the achievement of objectives.

Principle #9: Organization identifies and assesses changes that could significantly impact the system of internal control.

CONTROL ACTIVITIES

Principle #10: Organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

Principle #11: Organization selects and develops general control activities over technology to support the achievement of objectives.

Principle #12: Organization deploys control activities through policies that establish what is expected and through procedures that put policies into action.

INFORMATION AND COMMUNICATION

Principle #13: Organization obtains or generates and uses relevant, quality information to support the functioning of internal control.

Principle #14: Organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

Principle #15: Organization communicates with external parties regarding matters affecting the functioning of internal control.

MONITORING ACTIVITIES

Principle #16: Organization selects, develops and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning as intended.

Principle #17: Organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

It means that as experts in the area of internal control, we now have a more detailed system to help us both contribute to and examine the efficiency and effectiveness of our systems.

Because the ICIF was a well thought-out body of work, the basic fundamentals have not changed. The COSO definition of internal control and the five components of internal control are unchanged. The requirement to consider the five components of internal control in order to assess the effectiveness of the system of internal control remains as it was originally designed. The use of management judgment in designing, implementing and conducting internal control and in assessing the effectiveness of the internal control system remains constant. Because these basics have remained as they originally were conceived, COSO insists that what they have accomplished are in fact updates to the ICIF and not changes.

So COSO has updated the internal control integrated framework. What does that mean to auditors? It means that as experts in the area of internal control, we now have a more detailed system to help us both contribute to and examine the efficiency and effectiveness of our systems.

Next, identify any gaps between the actual control system and the ICIF. Lastly, develop and document a plan to address those gaps.

What can you do to prepare to adapt or update your internal control system to adhere to the updated ICIF? If you are already using the 1992 version of the framework, there should be no major overhaul of control systems necessary to accommodate the 2013 version. The basic requirements of the 1992 version remain the same. The process is much like a typical audit. Examine your current control system and compare that system you have in place to the system requirements, as outlined in the updated framework. Next, identify any gaps between the actual control system and the ICIF. Lastly, develop and document a plan to address those gaps.

Some benefits of the updated ICIF include

- Reliable reporting that supports management and board decisions
- Consistent mechanisms for processing transactions
- Increased efficiency within functions and processes
- A basis for decisions where highly subjective and substantial judgment is needed, and
- The ability and confidence to accurately communicate business performance with business partners (stakeholders) and customers (students/sponsors), which supports continuity of relationships

For more information on tools that can help you understand and use the updated framework to your advantage, prepare for adopting the updated ICIF, and get live seminar training; consider the following resources:

www.coso.org

The COSO website is the first stop for learning more. Here you can obtain the updated ICIF itself, an executive summary of the ICIF, and tools and templates for implementing the ICIF.

http://mcgladrey.com/content/dam/mcgladrey/pdf/wp_coso_2013_internal_control_integrated_framework.pdf

The McGladrey LLP website contains a white paper by Sara Lord, which is a clear and concise explanation of the updated ICIF and offers tips on how to prepare for implementation.

<http://www.compliance-seminars.com/internal-control-coso-2013-framework-overview.asp>

The Corporate Compliance Seminars group offers live seminars around the country in preparation for adopting the ICIF.

No matter which category you may fall into, it is beneficial to become familiar with the updated framework.

<https://na.theiia.org/training/courses/Pages/COSO-2013-Implementing-the-Framework.aspx>

This Institute of Internal Auditors site contains information on training that the IIA offers regarding the updated ICIF.

Many organizations have relied on the COSO ICIF since it was first published. Some organizations have yet to embrace the framework. No matter which category you may fall into, it is beneficial to become familiar with the updated framework. If you are already using the 1992 ICIF, you will want to stay current. If you are not using the ICIF, you will want to have the information available to make an informed decision on whether to adopt it or to use some other guideposts for your internal control system. ■

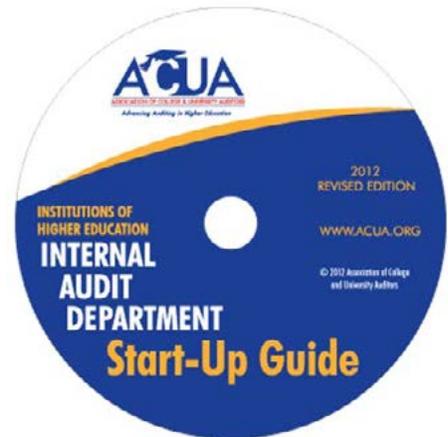


INSTITUTIONS OF HIGHER EDUCATION

INTERNAL AUDIT DEPARTMENT

START-UP GUIDE

The primary purpose of this guide is to serve as a reference tool, one of many you will likely use as you establish an audit function that best fits the needs and resources of your organization. The information and examples have been collected from very successful audit shops and truly represent many of the best practices in higher education internal audit. They may or may not fit your needs, but they will all provide valuable guidance and ideas as you work to establish your new audit department.



Contents of this guide include:

- Establishing the Authority of the Department with sample charters and policies
- Getting the Department Operational, with concrete advice on risk assessments, annual planning, quality assurance, fraud investigations, and marketing the new department
- Reporting to all constituencies, including examples of reports used by ACUA members
- List of resources and key terms
- And so much more!

Please contact the ACUA Executive Office at acua-info@goamp.com, call 913.895.4620 or visit the ACUA Store on ACUA's website www.acua.org for more information.



ACUA WELCOMES THE FOLLOWING NEW MEMBERS:

Nancy Stroud
Middle Georgia State College, Cochran, Ga.

Jodi Williams
Wellesley College, Wellesley, Mass.

Issah Yakubu
Qatar University, Doha

Sandra Cuthbert
Massachusetts Maritime Academy,
Buzzards Bay, Mass.

Carmen Loyo Berrios
Pontificia Universidad Catolica De Puerto Rico,
Ponce, Puerto Rico

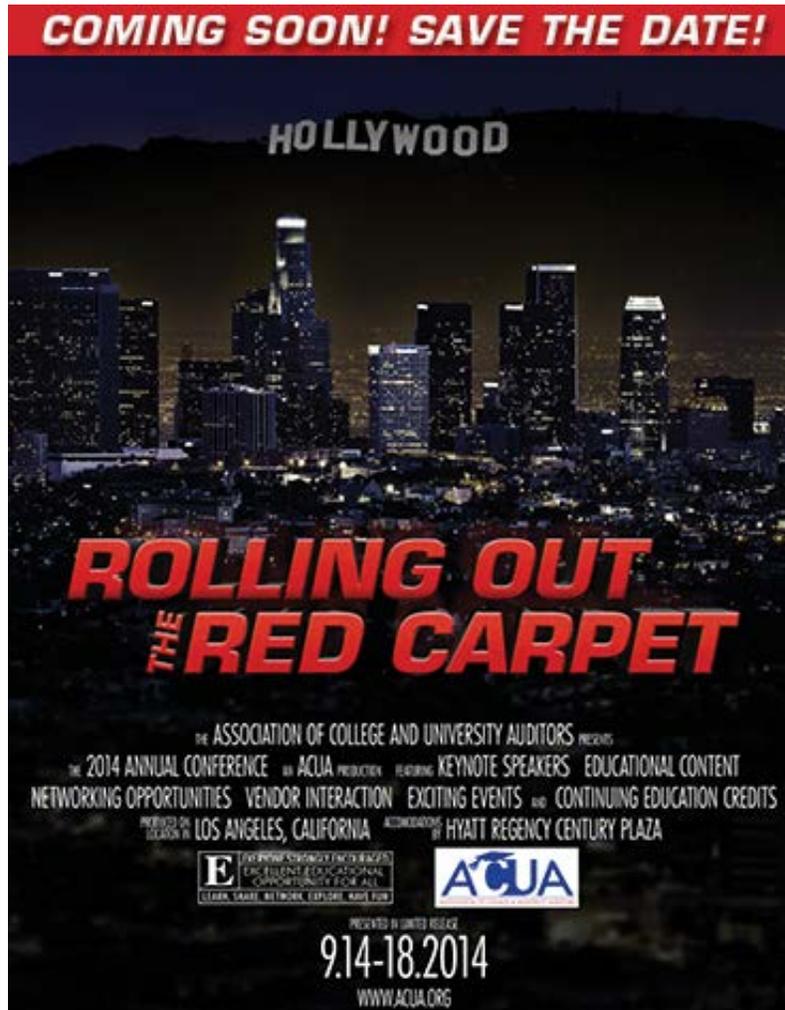
Joseph Maleszewski
State Univ. System of Florida Board of Governors,
Tallahassee, Fla.

IN MEMORIAM

WILLIS NORDHEM 1928-2014

Willis I. Nordhem, one of the 12 founding members of ACUA and the organization's third president, passed away in February 2014. He served as the director of internal audit as Northwest University for many years. He is survived by his wife, Nadyne Nordhem, daughters Vicky (Kurt Brueggemann) Nordhem-Brueggemann and Sandra (Michael) Camugnaro, grandchildren Kylie, Andrew and Nicholas, step grandchildren Amanda, Emma and Sonja, and brother Alan (Linda) Nordhem.

Funeral services took place Feb. 10, 2013 at Quentin Road Bible Baptist Church, Lake Zurich, Ill. In lieu of flowers, memorials may be made to Quentin Road Bible Baptist Continuing Education at 60 Quentin Road, Lake Zurich, IL 60047 or to Luther College, Nordhem Scholarship Fund, Development Office, 700 College Drive, Decorah, IA 52101.



Volunteer Opportunity! Here's How You can be a Risk Owner...

So here we are in the first quarter of a new year – everyone has made New Year's resolutions, set new goals and is thinking about how to make this year their best ever. Well, have we got a deal for you, and the best part is it's WAY easier than dieting, working out or breaking a bad habit!

With a time commitment of only one hour, you can have an impact on one of ACUA's most valuable resources – the Risk Dictionary. "How," you ask, "can I take advantage of this fantastic opportunity?!" Here's how: we are looking for "Risk Owners" of the areas included in the Risk Dictionary. As Risk Owners, you will simply review the current information in the Risk Dictionary for your area(s), consider risks and/or controls that need to be added and send the updated information back to us.

To get started: Just look through the Risk Dictionary and choose a few areas where you have some knowledge or recent audit experience. Once we have identified Risk Owners, we will provide you with brief guidance on writing the risks and controls and work with you to update your section.

Yes folks, it's THAT simple to start (or continue) your ACUA volunteer career! If you have questions, please don't hesitate to contact [Kim](#) and [Dick](#).

Thank you in advance!!

Kim Turner and Dick Dawson
Risk Dictionary Committee Co-Chairs

NEW ACUA Resource Library Additions

The following items have been added to the Resource Library:

- Export Control Survey
- Theatre Revenue Audit Program
- Eligible Dependent Audit Program
- Housing Services Audit Program
- Introduction to Internal Audit
- Individual Assessment
- Progression Plan Guidelines
- KSDE Grant Audit Program
- Off Campus Activities ICQRF
- IR Data Integrity-Security Audit Program
- Information Security Management Checklist
- IT Governance Checklist
- International Programs Audit Program
- Risk Management Checklist
- Access Management Control Checklist
- Business Continuity Checklist
- Privacy and Records Management Checklist
- International Programs Audit Program Version 11

Customized Verification – Navigating Change

By Margaret Murphy

The Department's long-range goal for verification is to develop a customized selection approach based on the data provided by each applicant on the FAFSA.

From the perspective of a financial aid administrator, auditors are not to be dreaded but welcomed as our friends. With myriad federal regulations, each financial aid administrator strives to make higher education affordable to students, while protecting the integrity of the federal, state and institutional financial aid programs. From a once every four year reauthorization, changes now happen at different times throughout the year, creating potential compliance issues. While aid administrators are focused on due diligence throughout the year, a well-conducted audit will assure us that we are on the right track or help us reassess our processes as needed. A team approach assures that institutions stay compliant and preserve students' eligibility for aid to achieve their dreams.

Consider federally required verification. Prior to 2012-2013, this process was fairly clear and direct as to what was to be verified and acceptable documentation. According to information provided in Dear Colleague Letter (DCL) GEN-12-11,

The Department's long-range goal for verification is to develop a customized selection approach based on the data provided by each applicant on the FAFSA. When fully implemented, this process will identify, for a selected applicant, only the FAFSA information that requires verification based upon that applicant's data. A transition period to move to this customized verification process started in the 2012-2013 verification selection process, and will continue into the 2013-2014 process. Transition to a customized verification process is expected to continue over multiple award years.

The implementation of customization has had its challenges. The new coding system adds steps to the old process and some new codes which, thankfully, limit items to be verified. Use of the IRS Data Retrieval Tool, requesting federal tax transcripts from the IRS and completing other steps in the verification process, while not without flaw, are necessary speed bumps to assure funding is going to eligible students. Knowing where to go for the most up to date information on regulations is key to meeting the challenge and adapting to customized verification.

Each year the U. S. Department of Education publishes several important tools for financial aid professionals. The website for financial aid professionals, www.ifap.ed.gov, serves as the portal for handbooks, guides, access to the Federal Register, and "Dear Colleague Letters"(DCL). The application and verification guide for the current year gives much needed information but is available late in a school's planning calendar. Reading all DCL communications assists aid professionals to stay abreast of coming changes. Auditors can also access this public site and gain access to much of the same information.

DCL GEN-12-11, published in July 2012, provided the additional verification items for 2013-2014. You can view the full letter at www.ifap.ed.gov along with the 2013-2014 Federal Student Aid Handbook Application and Verification Guide. The shortcut for the current handbook is located in the right column of that website's landing page. You can also read more about requirements for 2014-2015 in DCL GEN-13-16, published on June 13, 2013. The 2014-2015 Application Guide is expected to be published soon. It will be available at www.ifap.ed.gov under Current Handbook (lower right) when published.



ABOUT THE AUTHOR

With more than 21 years' experience in financial aid, **Margaret Murphy** currently serves as Director of Financial Aid at Eastern Virginia Medical School in Norfolk, Va. Active in the Virginia Association of Student Financial Aid Administrators (VASFAA) since 1993, this year Margaret is completing a three-year commitment as President-Elect, President and Past President for VASFAA.

Hopefully if all team members are on the same page, customized verification is a successful process for all involved. After all, helping students reach their educational goals requires assurance that assistance goes to those who truly need it.

The ACUA conference presentation handout from the session “Navigating Customized Verification” includes links to additional resources from the U. S. Department of Education. A reminder that the presentation was based largely on the U. S. Department of Education’s presentation at the annual conference of the National Association of Student Financial Aid Administrators (NASFAA) with a few slides from the author’s viewpoint added for the ACUA presentation. I appreciate the opportunity to present and hope attendees found it worthwhile.

IFAP landing page:

START HERE GO FURTHER FEDERAL STUDENT AID

IFAP

Home Getting Started What's New Calendar iLibrary Training Help Feedback

Search: **GO**
Advanced Search

My IFAP

- System & Processing Links - Application
- System & Processing Links - Programs
- System & Processing Links - Transmission
- Participation Links - Application
- Participation Links - Audits
- Participation Links - Programs
- Funding Links
- Resource Links
- Financial Partners Links
- Federal Loan Servicer Links
- Student & Parent Links - Application
- Student & Parent Links - Programs
- ED Links
- Other Links

Information for Financial Aid Professionals (IFAP)

The Information for Financial Aid Professionals (IFAP) Web site consolidates guidance, resources, and information related to the administration and processing of Title IV federal student aid into one online site for use by the entire financial aid community.

The most recent postings to the site are listed in the [What's New](#) section.

Tools for Schools
Click on this box to access online and computer-based training resources.

Worksheets, Schedules, & Tables
Click on this box to access worksheet, schedule, and table resources.

Publications
Click on this box to access program-related and processing-related publications.

Processing Resources
Click on this box to access program and system processing information and materials.

What's New **RSS**

Below is an abbreviated list of the most recent postings to the IFAP Web site. Click [here](#) or on the "What's New" link in the top menu bar to view all recent postings.

Dear Colleague Letters

- [2013-10-17](#) (GEN-13-22) Subject: FY 2014 Sequestration Changes to the Title IV Student Aid Programs (Updated October 25, 2013)
- [2013-10-24](#) (ANN-13-16) Subject: Rescheduled - Live Internet Webinar - 150% Direct Subsidized Loan Limit Webinar #3: Review of Basics and Implementation Update

EDE Technical Reference

- [2013-10-23](#) Subject: 2014-2015 EDE Technical Reference (Final)

Hot Topics

- [FAFSA Social Media Tools](#)
- [Program Integrity Information - Questions and Answers](#)
- [Federal Student Aid Data Center](#)
- [Disaster Assistance](#)

Gainful Employment

Links to information for gainful employment

[Information Page](#)

Letters & Announcements

Policy and operational guidance for participants in the administration of Title IV federal student aid programs

[Dear Colleague Letters](#) | [Electronic Announcements](#) | [Foreign School Updates](#)

Handbook

Comprehensive annual guide to regulatory and administrative requirements for the Title IV federal student aid programs

[Current Handbook](#) | [Archives](#)

Training & Conferences

Who Shot the Auditors? The Inside Story

By Charlie Chaffin, CIA, CPA

At its annual conference in 2012, the Association of College and University Auditors (ACUA) awarded Mr. Chaffin its “Outstanding Professional Contributions Award.”

Charlie Chaffin shared his 10 lessons learned from his distinguished 40-year career as the chief audit executive (CAE) for one of the nation’s largest higher education systems and as an audit partner with one of the world’s largest public accounting and consulting firms, Deloitte. At its annual conference in 2012, the Association of College and University Auditors (ACUA) awarded Mr. Chaffin its “Outstanding Professional Contributions Award.”

In addition to sharing his 10 lessons learned, Mr. Chaffin agreed to give his insights into the April 2012 Special Investigation Report (Special Report) commissioned by the University of Texas System Chancellor, which disgraced the former UT Southwestern president and led to the forced retirement of Mr. Chaffin and the UT Southwestern CAE.

The objectives of the presentation were to educate attendees about:

- The disruptive impact that attorneys and investigative reporters can have on an institution using the Texas Open Records Act,
- The internal controls already in place throughout the UT System to prevent the alleged inappropriate foreign travel by the former president,
- The investigative reporters’ unsubstantiated allegations reported over a five-year period and the UT System strategies to combat the negative publicity, and
- The breakdown in the governance structure that led to incorrect decisions that are still being felt over a year later.

BACKGROUND

The UT System consists of nine academic and six health institutions, separately funded by the Texas state legislature and overseen by one nine-member Board. Three Board members are appointed by the governor every two years for six-year terms. The \$12 billion system is headed by a Chancellor, an Executive Vice Chancellor (EVC) for Academic Affairs and an EVC for Health Affairs. Each institution is led by a president who reports to the Board, Chancellor and respective EVC. All executives serve at the pleasure of the Board.

The 125-person internal audit group includes an audit director and staff at each institution. Each director reports to the institutional president and to the UT System CAE, who reports to the Board and Chancellor.

Following the issuance of the Special Report, the Chancellor informed Mr. Chaffin that it was critical of the internal audit work that UT System Audit had performed four years earlier in 2008, and requested that he retire or resign. Otherwise, he would be fired immediately. Since Mr. Chaffin was aware that he did not have the support of the Chancellor or the new Board, he applied Lesson 1 and chose to retire. The meeting was cordial, and the Chancellor and Mr. Chaffin reached a separation agreement within minutes. Three months later, the Chancellor sent Mr. Chaffin a handwritten note of thanks for his years of outstanding service.

Since Mr. Chaffin was aware that he did not have the support of the Chancellor or the new Board, he applied Lesson 1 and chose to retire.



ABOUT THE AUTHOR

Charlie Chaffin completed his 40-year auditing career as the Chief Audit Executive for one of the largest higher education entities, the University of Texas System. Prior to retiring in 2012 after 21 years at UT, Charlie helped build a model internal audit program for all of higher education. He and his wife of 46 years are living their dream in Houston with their children and seven grandchildren.

Lesson 1 – Never go into a meeting blind. Always know the agenda and probable outcome.

Objective 1 – Impact of open records requests

What possibly could have happened at UT Southwestern that led to the disgrace of the former president and forced resignations of the two CAEs?

These gifts allowed UT Southwestern to become one of the finest academic medical centers in the Southwest.

In about 2007, two Southwestern employees, in separate cases, hired attorneys, one to regain his position as head of the hospital emergency room and the other to keep from being convicted of theft. The employees began requesting hundreds of documents using the Texas Open Records Act. Shortly thereafter, anonymous letters were sent to the Texas State Auditor alleging a variety of improprieties against various UT Southwestern officials. Ultimately, the courts upheld UT Southwestern in the emergency room case and convicted the former business employee of felony theft. Meanwhile, the auditors at UT Southwestern and the UT System were requested to investigate the various allegations of impropriety.

The first UT System audit was performed in 2008 to determine the validity of several anonymous allegations regarding UT Southwestern President Kern Wildenthal, including the appropriateness of his housekeeping arrangements, quarterly reports of travel and entertainment expenses, membership of the institutional Internal Audit Committee, and his wife's institutional credit card. **None of the allegations were of inappropriate foreign travel.** The audit report included recommendations regarding maintaining good inventory records of wine purchases used for development purposes. Dr. Wildenthal was considered to be an outstanding fundraiser, having been personally responsible for gifts of over \$1 billion. These gifts allowed UT Southwestern to become one of the finest academic medical centers in the Southwest.

The second UT System audit, also conducted in 2008, was performed at the request of UT System executive management and investigated allegations similar to those addressed in the first audit. Finally, there was a third audit, a routine change of management audit when Dr. Wildenthal stepped down as president, effective August 31, 2008. The report for this audit recommended that the president's office strengthen its documentation of travel and entertainment expense reimbursements.

The Open Records requests overloaded the UT Southwestern staff, as they were required to review and copy tens of thousands of documents. At the time of this writing, the Texas legislature is considering impeachment procedures against a current UT System regent for making similar requests for UT Austin documents.

Objective 2 – Internal controls implemented to prevent travel fraud

The UT System is a leader in implementing controls over presidential travel, including having the chief business officer approve all travel; having a UT System EVC approve all foreign travel in advance, review a quarterly report of all travel and entertainment expenses, and annually certify the appropriateness of such expenses; having an annual internal audit; and having a periodic audit by the UT System. These controls were implemented with the guidance and direction of the UT System CAE, who taught them at the ACUA 2012 Midyear Conference.

Lesson 2 – No risks, no rewards – the UT System audit function considered to be high performing.

Objective 3 – The effect of allegations of inappropriate expenditures by the UT Southwestern president and the UT System's strategy to deal with the negative publicity

Although the audit results were correctly communicated to UT System executive management and the Board in 2008, *The Dallas Morning News* (DMN) investigative reporters continued to use the Open Records Act to fish for inappropriate expenditures.

Lesson 3 – Take every Open Records request seriously and DOCUMENT all discussions with attorneys, executive management and the Board regarding which allegations to investigate.

In 2008, Dr. Wildenthal stepped down as president, and the new president began reviewing and approving his travel, without a secondary review at the UT System or an internal audit. No allegations

A crisis was created at the UT System and UT Austin, and it continues.

of impropriety were made from 2008 to 2011. However, in 2011, the Texas Governor appointed three new regents to the Board, with the intent of dramatically altering the delivery of educational services, including creating \$10,000 degrees. With the appointment of the three new regents, a war for control of UT Austin began. A crisis was created at the UT System and UT Austin, and it continues.

Lesson 4 – Never give out, give in, or give up!!

Although he had made retirement plans, Mr. Chaffin delayed them while the UT System was in crisis.

Lesson 5 – Always have a backup plan.

New DMN Allegations – Fall 2011

Following new allegations of inappropriate travel by Dr. Wildenthal in his role as special assistant to the president, the Chancellor engaged a former US Attorney to investigate them. For a \$500,000 fee and after reviewing over 100,000 documents, the investigator issued the aforementioned April 2012 Special Report. He had interviewed Dr. Wildenthal and 11 other “witnesses,” including the two CAEs. Because the Special Report only appeared to question two foreign trips over a 10-year period, UT Southwestern hired a large public accounting firm to “audit” Dr. Wildenthal’s travel over this period. The firm determined that all travel was within policy and recommended no reimbursement. After reviewing these two conflicting reports, the Chancellor requested the new UT System CAE to perform an exhaustive audit of all reimbursements to Dr. Wildenthal over the 10-year period. Upon completion of this third examination, Dr. Wildenthal agreed to reimburse \$6,000, even though he had thousands of dollars of allowable travel charges over the years that he had never submitted for reimbursement.

Lesson 6 – Review Lesson 1 – Never go into a meeting blind. Take every investigation seriously and always have legal representation present when talking with attorneys, especially a former US Attorney.

Over this five-year period, the UT System requested internal auditors to review every allegation, held one-on-one meetings with the investigative reporters, provided all requested documentation promptly without roadblocks, and engaged an independent investigator. Also, as a result of the Special Report, the UT System made immediate personnel changes to get the five-year saga behind them. The Special Report and related personnel changes were headlines in the DMN on April 25, 2012.

Lesson 7 – As CAE, you will always be an outsider. Know when to hold ‘em and know when to fold ‘em. Never burn any bridges on your way out; hold your head high.

Reaction to Special Report

Immediately after issuance of the Special Report, peers, former employees, and current directors and staff expressed outrage. Outside audit committee members and internal auditing faculty experts communicated the report’s flaws. Noting that there were no repercussions for the approvers and reviewers of the alleged inappropriate reimbursement requests, the DMN requested interviews with the retired CAEs, who declined. As it became clearer that the Special Report was flawed, the Chancellor sent a thank you note to the UT System CAE for establishing a model internal program at UT. In September 2012, ACUA awarded Mr. Chaffin its prestigious “Outstanding Professional Contributions Award.” To date, he is the only person to receive the award twice.

In Dallas, community leaders took out full-page ads supporting Dr. Wildenthal, while the DMN continued to write negative articles about him. Following the two additional audits, the former UT Southwestern chief business officer wrote, “So in the end, after all the audits, investigations, terminations, retirements, newspaper charges, and expenditures, net net, UT Southwestern actually owed Dr. Wildenthal not the opposite! Will any letters of apology be written? Of course not, let’s move on.”

“So in the end, after all the audits, investigations, terminations, retirements, newspaper charges, and expenditures, net net, UT Southwestern actually owed Dr. Wildenthal not the opposite! Will any letters of apology be written? Of course not, let’s move on.”

Objective 4 – Breakdown in the governance process

Following the appointments of new Board members in 2011, the newly elected Chairman of the UT Board of Regents appointed an inexperienced audit committee that failed to oversee the work of the investigator looking into allegations of inappropriate foreign travel by Dr. Wildenthal. After he stepped

I am proud to be part of both those groups and especially proud to have had internal auditing as a professional calling.

down as UT Southwestern president, Dr. Wildenthal was not subject to the same internal controls. The new president failed to thoroughly review Dr. Wildenthal's travel reimbursement requests, and they were no longer subject to internal audit. The Special Report was flawed and probably was not thoroughly reviewed by the Chancellor and the Board before they acted. Since they were being pressured by the DMN to release the Special Report and wanted any negative publicity behind them, they used the Special Report to force out Dr. Wildenthal, and the two CAEs were collateral damage.

Lesson 8 – Make sure someone has your back and will go to bat for you when the going gets tough.

Where Are They?

Dr. Wildenthal recently became president of the Children's Medical Center Foundation in Dallas, thus becoming the Center's chief fundraiser. The UT Southwestern CAE is completing his master's degree in healthcare and is an internal auditor for the City of Dallas. The UT System CAE is happily retired in Houston playing with his eight grandchildren. He is a frequent speaker on internal auditing topics for ACUA, the Institute of Internal Auditors, and auditing classes at UT Austin and UT Dallas.

Lesson 9 – Be the best that you can possibly be.

Lesson 10 – You will not be judged by how well you perform, but how well you help others perform.

Final Thoughts

The University of Texas System is a world-class higher education system and a wonderful place to work. I thoroughly enjoyed every day of my over 20-year career, including every day of the last year. Internal auditing is a challenging and rewarding profession, and I would highly recommend it to anyone, especially accounting and business majors. I am proud to be part of both those groups and especially proud to have had internal auditing as a professional calling. ■

**Reason says:
hire a jack
of all trades.**

**Instinct says:
choose a master
of one.**

At Grant Thornton, our higher education professionals work extensively with institutions just like yours. That total focus gives them deep experience to help their clients grow in their ability to succeed in their missions. See how they do it at GrantThornton.com/HigherEd.



Grant Thornton

An instinct for growth™



"Grant Thornton" refers to Grant Thornton LLP, the U.S. member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL member firms and GTIL are each a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.